THE GOLD RUSH IN NEVADA

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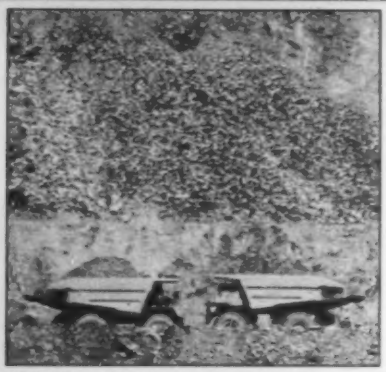

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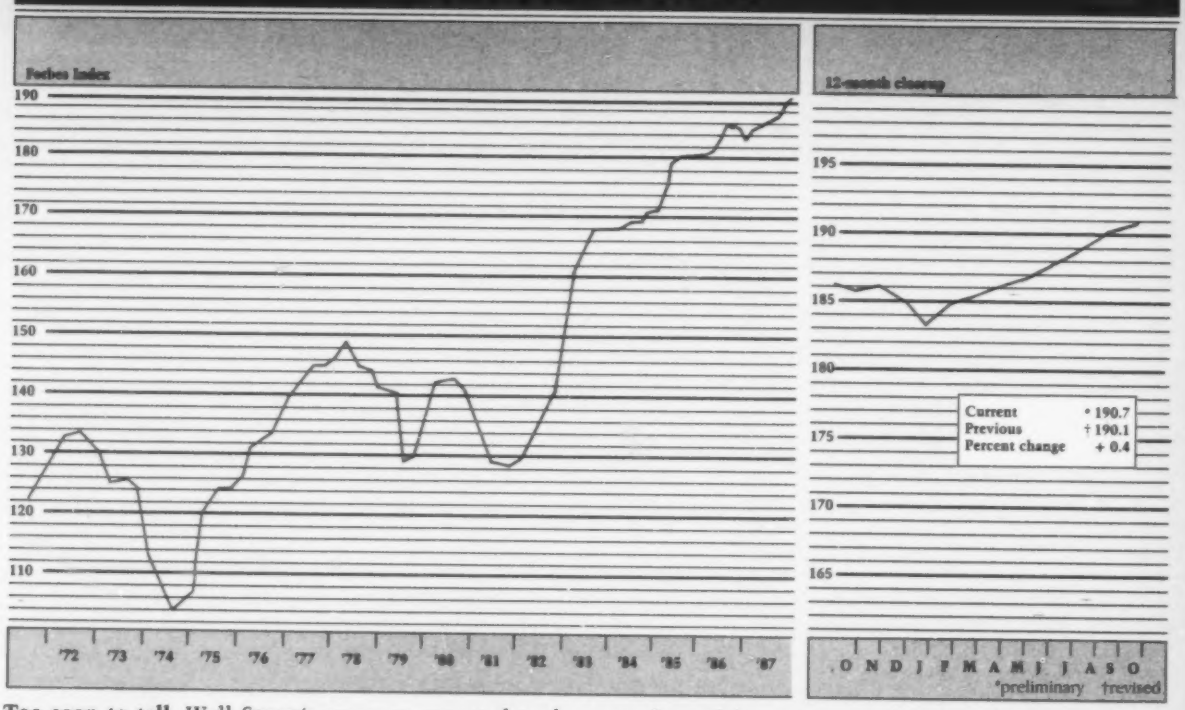
The Forbes Index



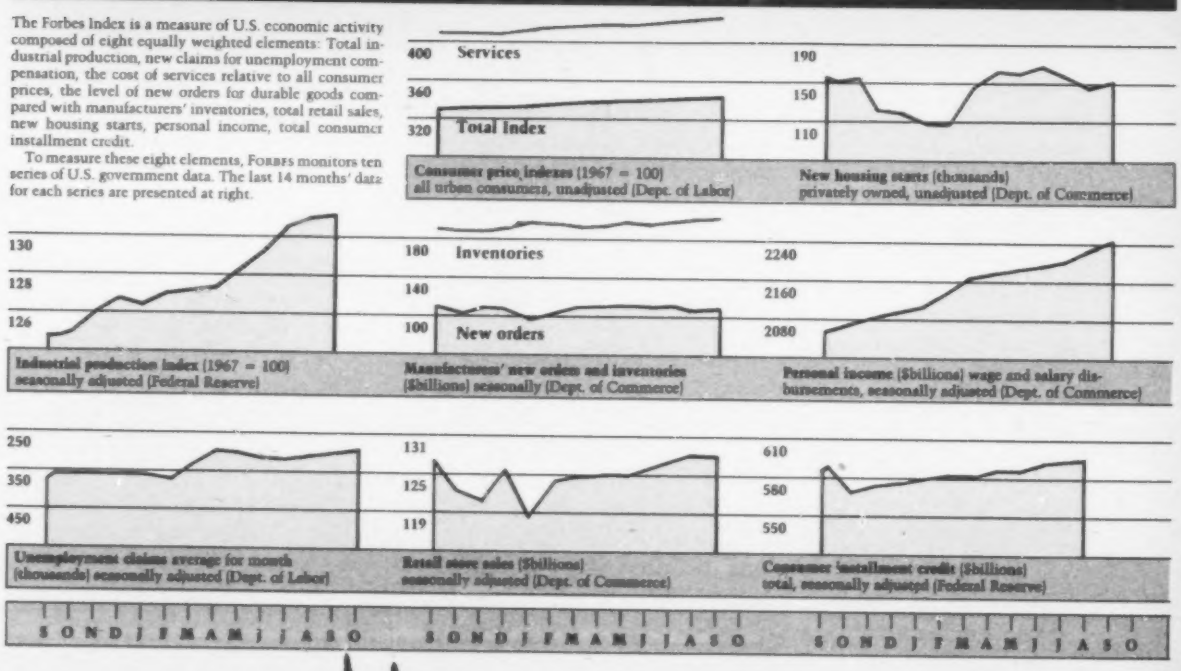
Too soon to tell. Wall Street's woes are expected to do some damage to the economy. But for now, at least, the longest peacetime expansion in history continues. Over the most recent two-week period the Forbes Index went up 0.4%, its ninth consecutive monthly increase. Since January the Index has grown at a 4% annual rate.

Two components boosted the Index: The trailing six-month total for new unemployment claims sank 2.6% from September to October, and personal income rose 0.6% in September, to an annual figure of $2.242 trillion. Only one sector went down: The ratio of manufacturers' new durable goods orders (three months through September) to inventories (September) fell 0.5%, largely from softness in military orders.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



How's Rupert Murdoch's Fox Broadcasting television network doing after a year on the air? It's still in the red, but it's far from dead.

A different brand of entertainment

By Deirdre Fanning

IF YOU'RE TIRED of the same old prime-time stuff about handsome lawyers or private eyes in $80,000 sports cars, then try tuning in that erstwhile urchin of the airwaves, Fox Broadcasting Co. On 121 different stations around the country, Rupert Murdoch's fledgling fourth network is serving up a different brand of entertainment that is not to everybody's taste. But Fox is garnering an audience of the kind that many advertisers want to reach.

Want to watch women inmates cavort in a prison? Or a sitcom about a President of the U.S. who turns out to be a jerk? Shows like these, running counter to the trend of programs on the other networks, are capturing the interest of a segment of television viewers that Madison Avenue covets: 18-to-49-year-olds with plenty of ready cash, a desire to consume and buying habits less set in stone than those of their elders.

By targeting this audience, Fox is successfully doing what a year ago seemed impossible: launching a start-from-scratch television network to take on CBS, NBC and ABC. The shows are offbeat but fresh and funny, and the counterprogramming is effective. The numbers, while by no means great, are roughly in line with what Fox had predicted for first-year start-up losses. A careful look at the figures suggests they may actually be better than is generally realized.

The strategy Fox has mapped out is straightforward: two nights of prime time programming weekly, followed by more nights of programming as the audience grows. The campaign is being directed by Fox Chairman Barry Diller and his two top aides, President Jamie Kellner and programming chief Garth Ancier. Says Diller, "All we need is one show that works, and we've got that already. The wind is at our backs."

Fox' focus of the moment: Sundays from 7 p.m. to 10 p.m., traditionally one of the strongest time slots of the week for the networks. This is the one period of the week when American families are most likely to gather together around the television, and for years the networks have battled for audience shares with programming like CBS' *60 Minutes*, ABC's *Disney Sunday Movie* and NBC's *Family Ties*.

Against those shows, Fox is throwing expensive, original programming all its own. There's *21 Jump Street*, an action series with young cops posing as teenagers. And *Married . . . With Children*, a kind of white-collar Archie Bunker sitcom. And the *Tracey Ullman Show*, a variety program featuring a quirky British comedienne.

All this costs money, and for now at least, Fox Broadcasting remains in the red, having lost somewhere between $35 million and $50 million since it began network programming 13 months ago.

But that programming is also bringing in, by FORBES' estimate, somewhere around $20 million annually in increased advertising revenue to Murdoch's seven owned-and-operated television stations.* With TV stations currently selling for 11-to-12 times operating cash flow, the extra revenue has increased the value of those seven stations, we estimate, by as much as $220 million—maybe somewhat less since the market crash but still a formidable gain. In other words, what is an income loss for Fox Broadcasting

** KDAF Dallas, KRIV Houston, KTTV Los Angeles, WFLD Chicago, WFXT Boston, WNYW New York, WTTG Washington, D.C.*

Paul Fusco/Magnum

Fox Chairman Barry Diller
"The wind is at our backs."

Co., is a potential balance sheet gain for Murdoch's Australia-based News Corp. Ltd., the ultimate owner of the stations.

Advertisers are attracted to Fox because of the composition of its audience. Most people think that commercial time is sold on television solely on the basis of household ratings—that is, the percentage of the nation's 88.6 million television-viewing households that are likely to tune into a particular program. But advertisers, who were initially promised an overall household rating of 6 by Fox, also buy time on shows based on the demographic profile of the audience watching that show. Thus, a "6 rating" for a show like Fox' *21 Jump Street* is less important to an advertiser like Coca-Cola or McDonald's than the fact that 90% of that audience, or about 4.75 million viewers, are aged 12 through 34—a key target audience for those advertisers.

Only a few of Fox' shows, most notably *21 Jump Street* and *Werewolf*, have garnered ratings of 6 or higher. Others, like the current *Second Chance* and the since-canceled *Late Show Starring Joan Rivers*, have consistently turned in sub-par 2s and 3s. But while such ratings have been somewhat disappointing, Fox has been delivering strong demographics. Says John Sisk, a senior vice president at J. Walter Thompson, "An advertiser would rather convert an 18-year-old to a new soap than take on some old fogey who's used the same soap for years and years."

A survey of the demographics for a recent Sunday night edition of *21 Jump Street* shows the new network doing well in the teen category, with a 17% share, compared with CBS' 7% share, NBC's 27% slice and ABC's 25% piece. Not bad for a network that reaches 13% fewer homes than do the big three, and that, just over a year ago, did not exist.

Fox' key to distributing these shows is the network of 121 "affiliate" stations around the country. As do the other networks, Fox pays these affiliates to carry its programming. Fox compensates the affiliates by paying them a percentage of the total network revenues, using a sliding scale to adjust the percentage for each affiliate's market share. In addition, Fox gives the affiliates six 30-second spots per hour to sell to their own advertisers.

Minnow versus whales

Fox' own stations are doing fine, but as a television network it still has a long way to go.

Network	Weekly programming hours	Current affiliates	—1986 revenues ($mil)— network	owned & operated
Fox	10	121	$40*	$345-350*
ABC	76	221	2,084	651
CBS	110	210	2,270	355
NBC	90	208	2,518	468

*For the period 7/86 to 6/87.
Sources for estimates: Broadcasting *magazine; First Boston Corp.; networks.*

Result? Most Fox affiliates are already making more money off the network programming than if they had stayed independent. Fox paid dearly for the rights to broadcast the television Emmy awards earlier this year, and poor national ratings made the venture look a loser. But the deal was a bonanza for many of the network's affiliates and made them glad to be part of Fox. "We made 20 times the income we'd normally make in that spot, carrying the Emmys," exclaims Martin Colby, general manager of XETV in San Diego.

In return for the increased rates, however, the affiliates pay a price: They lose some of their programming independence. On the afternoon of the 500-point Monday stock market collapse last month, Murdoch and Diller decided to air a special 30-minute news segment on the crash at 11 p.m. Diller thought the show, the first national newscast for Fox, would be a great way to test the waters for an eventual Fox news program.

The affiliates thought otherwise, and as late as 3:30 that afternoon, the plans for airing the broadcast were still up in the air. In the end, the show was offered to the affiliates as an option, but Diller had made his point: A real network has to be able to throw on a news show to compete.

The Fox network still has problems aplenty. Though they cover 86% of the country, some 75% of the affiliates are weak-sister UHF stations, which have limited range and signals that often do not come in clearly.

"This is a problem, no question," concedes Diller. But, he adds, cable systems, which serve just under half the television-viewing homes in the country, by law must carry UHF signals in their viewing area. With cable transmission, UHF reception is as strong as that of VHF.

Murdoch has been patient with startup enterprises in the past: One of his Australian newspapers, the *Australian*, suffered losses for 20 straight years before it turned a profit, and through it all Murdoch hung tough. With the Fox network, of course, Murdoch is taking a risk on a far grander scale, and his empire is already highly leveraged with debt. But the betting is he won't lose his nerve now, with his network off to a promising, if stormy, start. ■

Tom Zimberoff/Gamma-Liaison

Network President Jamie Kellner (left) *and programming chief Garth Ancier*
Counterprogramming that has captured the attention of Madison Ave.

Fund managers are trading for as little as six or eight times 1987 earnings. Can prospects for the industry really be that bad?

Down, but hardly out

By Ruth Simon

Was Black Monday a death warrant for fund management companies? It's easy to think so when you look at the prices of fund company shares. Dreyfus, which weathered the month of October with a mere 2% shrinkage in mutual fund assets under management, is trading 46% below its peak. Eaton Vance, at a recent 15½, is going for less than half its 52-week high and at only six times likely 1987 earnings.

Earnings prospects were dimmed by the crash. But that's not the same as saying earnings will decline for all or even most fund operators. Unlike the brokerage industry, the fund industry emerged from the crash in relatively good shape. The fund companies don't have big losses from trading on their own accounts or from customers failing to meet margin calls. Some of them have profit margins you could drive a truck through. A decline in revenue will not put them in the red.

The difference is partly a matter of how the industry makes its money. Fund sponsors depend largely on management fees—typically 0.4% to 0.75% of fund assets annually (money market funds fall at the low end). Those fees drop when assets decline. But, unlike commissions, they don't vanish when sales dry up.

That doesn't mean the industry hasn't taken its licks. Total fund assets fell 5.8%, to $798 billion, between Aug. 1 and Oct. 23, according to Joel Rosenthal, head of Strategic Insight. That estimate includes $256 billion for money markets and $461 billion for stock, bond and other long-term funds.

Management companies with large equity funds took the biggest hits. At T. Rowe Price, fund assets sank 12%, to about $13 billion, between Sept. 30 and Oct. 30. Eaton Vance's fund assets skidded 8% during the same period. Firms like Dreyfus that specialize in fixed-income and money-market products were relatively unscathed, but their assets declined in March when bond prices fell.

Sales are indeed leveling off, but that was true even before the crash. Sales less redemptions of long-term funds totaled $78.6 billion for the first nine months of 1987, according to the Investment Company Institute. That's off about 30% from the same period last year. Redemptions outpaced sales in September by $1.1 billion, the first time in seven years net sales have been negative. "I think the consumer was fairly full up," says Dreyfus Chairman Howard Stein.

The good news was that the crash didn't spur most investors to cash in their shares. Preliminary reports show that nearly all the losses reflected falling equity prices, with most fund companies reporting withdrawals at less than 2% of assets. "Most people I've talked to have been surprised at what a nonevent this has been for the mutual fund industry," says Curt Jones, treasurer of Boston-based Eaton Vance.

Some equity funds even saw inflows after the panic waned. "We started to see some money coming [back] into stock and bond funds," a T. Rowe Price spokesman said a week after the crash. "People started to feel there were opportunities there."

The story is a bit different at the second-largest fund operator, privately held Fidelity Investments. At this aggressive marketer, it was easy come, easy go. Assets of the firm's venerable Magellan Fund fell 31% in October, to $7.9 billion, as a steep fall in the fund's net asset value was exacerbated by the redemption of 8%, or 15 million, of its shares. And many customers, lured by the prospect of switching among Fidelity's sector funds, switched out of them altogether, forcing fund managers to liquidate holdings as the market dropped.

So, are fund operators buys? Thomas Ackerman, director of research for Fechtor, Detwiler & Co., thinks so, notwithstanding that he has recently trimmed earnings estimates for most of the fund companies he tracks. "We're going to see pretty flattish earnings for most companies," he says—in comparison with the dizzying growth of the past five years. In the table at left, Ackerman shows small earnings gains for five companies. He assumed very modest net sales for the next two months and flat stock and bond prices for next year.

Because sales were strong through April, most companies should end 1987 with as much in assets—and thus earning power—as at the end of 1986. Helping next year's earnings is a cut in the corporate income tax, which will boost earnings by 5% to 15%. ■

Betting on the house

Earnings are plateauing at fund management companies, but the stocks still look rather cheap. The market's price/earnings multiple is 13.

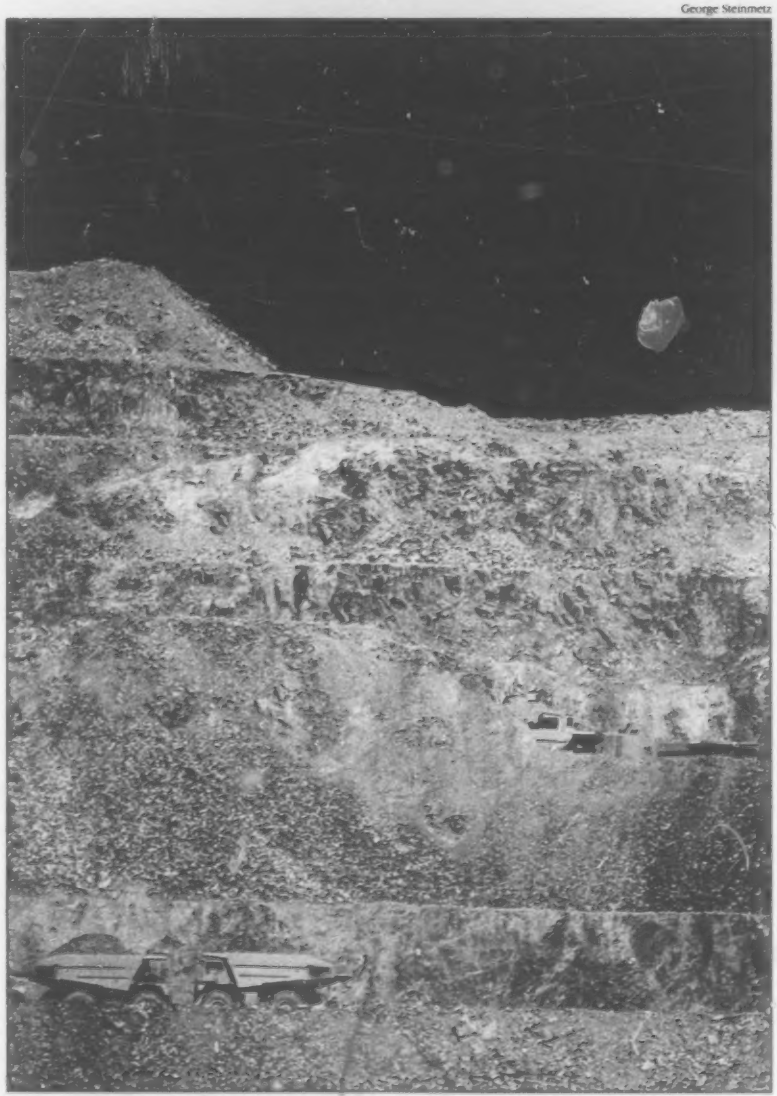
Fund	Assets[1] ($billions)	Earnings per share 1987	Earnings per share 1988	—Price— recent	—Price— 52-week	P/E on 1987 est
Amer Capital Mgt	$17.7	$1.25	$1.00	10½	24⅞– 9	8
Colonial Group	9.1	1.65	1.90	9½	28 – 7½	6
Criterion Group[2]	12.1	0.75	0.75	7	21¼– 6⅝	9
Dreyfus	38.2	2.25	2.35	24½	45½–16	11
Eaton Vance[3]	6.4	2.70	3.00	15½	32½–12⅞	6
Franklin Resources[4]	33.0	2.21[5]	2.40	16¾	45⅝–12	8
Pioneer Group	7.5	2.15	1.95	14¾	30¼–13	7
T. Rowe Price Assoc	24.4	2.70	3.10	20½	51 –17½	8

[1]As of 9/30. [2]Estimates from Mabon, Nugent & Co. [3]Fiscal year ends 10/31. [4]Fiscal year ends 9/31. [5]Actual.
Source: Earnings estimates from Fechtor, Detwiler & Co. unless otherwise noted.

Las Vegas? That isn't where the action is in Nevada today. Move out into the hills, where new gold finds are creating fortunes beyond the forty-niners' wildest dreams.

There really is gold in them thar hills

George Steinmetz



Echo Bay's Round Mountain mine
In the mid-1970s, uneconomic. Today, a capital-intensive bonanza.

By Howard Rudnitsky and Jonathan Clements

THE RECENT DROP IN THE PRICE of gold and the heavy selloff of gold stocks has done nothing to throw cold water on Nevada's gold boom. For now, the happy participants take the news in stride. The Western world's conversion to easier money could spell inflation down the road—and inflation is good news for gold. So what if some Hong Kong investors were forced to dump gold last month? This soon may pass.

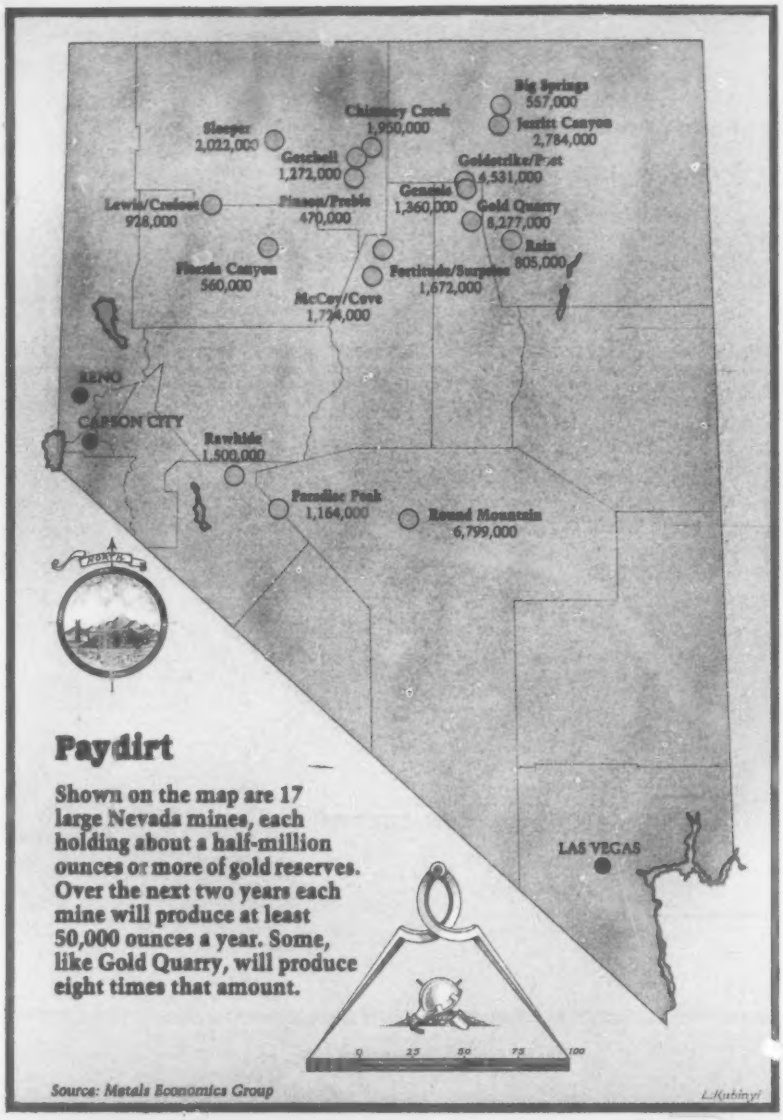
So Nevada's gold rush continues apace. Not even the state's great silver rush of over a hundred years ago comes close to matching the current gold mining boom in Nevada's barren hills and valleys.

Why now? Aren't gold prices below their early 1980s peak? Yes, but they're still well above the prices of the late 1970s. In addition, improved technology is lowering costs of gold mining.

The improvements made since 1979 in recovery processes like heap leaching have made pay dirt of once-uneconomic ore. Today ore that contains as little as 0.015 ounces of gold per ton can be profitable. Just eight years ago you needed ore seven times as rich.

Some individuals are getting wealthy—enormously so—off this action. Roy Ash and the heirs of the late Charles (Tex) Thornton, for example. Back in the early 1960s, Ash and Thornton each paid $1.25 million for T Lazy S, a 223,000-acre cattle ranch stretching from Battle Mountain to Carlin, Nev. As these things go, the ranch was a good tax shelter. Better yet, the investment turned out years later to be sitting atop the Gold Quarry deposit, where Newmont Mining Corp. was extensively exploring. The ranch and certain mineral rights were sold to Newmont in 1982 for $35 million—plus an unusually large 16.2% gross revenue royalty on all minerals produced.

Today Gold Quarry, mined by Newmont Mining's 90%-owned Newmont Gold, has 8.3 million proven and probable ounces of gold. In 1988 a little under 600,000 ounces will be produced from Gold Quarry, entitling the royalty holders to at least $25 million. Ash and Thornton's heirs could realize about $300 million to $350 million in royalties from Gold Quarry over the next 15 years—unless a Newmont suit filed at the end of 1986 against the partners succeeds in slowing down the rate of production. Ash and Thornton's estate have coun-



Round Mountain's gold heap-leaching facility, the world's largest ***Environmentalists have not been a problem.***

George Steinmetz

tersued, threatening rescission of the deal if Newmont cuts back.

Virtually all the gold mined in Nevada thus far has been from lower-cost, open-pit mines. Mining analysts estimate that by the early 1990s, when the companies will begin deep-mining, Nevada's gold reserves could swell to 50 million ounces. The figure is up from less than 20 million ounces in the late Seventies. With Nevada's gold production expected to nearly double by 1990, to some 4 million ounces, the state is fast becoming a world-class gold-producing region. Nevada already has enabled the U.S.—which produced 3.7 million ounces last year—to pass Canada and become the world's third-largest producer, still well behind South Africa and the Soviet Union.

Which are the big corporate winners? Newmont Mining, of course, for one. Newmont bought Gold Quarry from Ash and Thornton. The mine went into production in early 1985. In a few years production at Gold Quarry and its other Carlin trend mines is expected to be well in excess of 1 million ounces. Assuming $450 an ounce, the production is likely to be worth about $300 million, more than $4 per Newmont Mining share net of operating costs.

"That kind of production," says Graham Birch, gold mining analyst at Britain's Kleinwort Grieveson Securities, "is on a scale with some of South Africa's largest mines."

Edmonton, Canada-based Echo Bay Mines this year found a large gold deposit—the Cove deposit—only a mile or so away from its existing McCoy mine operation in central Nevada (FORBES, *Oct. 5*). Already the company has 1.7 million ounces of gold reserves there. At today's prices, Echo Bay's 1989 Nevada production alone could be worth over $1 per Echo Bay share. With much of its 75-square-mile McCoy/Cove property unexplored, by early next year the company expects its gold reserves to double.

Amax Gold put its Sleeper mine, situated in Humboldt County, Nev., into production in early 1986. Further exploration indicates there are at least 2 million ounces of gold reserves on the property. In fact, Sleeper is the U.S.' lowest-cost large gold mine, with cash costs estimated at well under $100 an ounce this year, and rising to $130 as lower-grade ore is mined.

FMC Gold found over 1 million ounces of gold at Paradise Peak near the town of Gabbs, southeast of Reno. At a cost of $92 million, Paradise Peak went into production in April 1986. Today it's producing 175,000 ounces

of gold a year at a cash cost of just $111 an ounce.

The Nevada gold rush has also attracted Canadian entrepreneurs and promoters like Toronto's frenetic financial operator Peter Munk, 60, who is back in the chips. He had a somewhat checkered career: founding a consumer electronics firm that eventually went bust, and trying his hand at hotel development in Fiji and in Egypt, where he met the Khashoggi brothers.

Back in Canada in the early Eighties, with money from the Khashoggis and other investors, Munk grabbed control of smallish Barrick Resources. In 1984 he took over Quebec's Camflo Mining. More than a mine, he got a highly regarded gold mining operator, Robert Smith, with whom he formed American Barrick. (The Khashoggi family sold out last year.)

Shortly after joining Munk, Smith came down to the U.S. looking for gold properties. About a year later American Barrick acquired the Mercur gold property in Utah for $31 million from Texaco.

Mercur produced over 110,000 ounces of gold in 1986 for Barrick. That helped Barrick to pay nearly $80 million for Goldstrike—a Carlin trend play—early this year. The price was thought very high. But already Goldstrike's proven and probable reserves come to 3.4 million ounces, worth about $1 billion.

Peter Munk today owns some 1.6 million shares of American Barrick, now worth over $25 million. And all told, through the Toronto-based Horsham Corp., he holds voting control over 7.4 million American Barrick shares worth over $100 million.

Two prospectors who struck it rich in the Carlin are geologists John Livermore and Peter Galli. Back in the early 1960s Livermore found the first Carlin area gold deposit for Newmont Mining. Newmont posted Livermore to Canada in the late 1960s. He left Newmont in 1970 and with Galli and four Canadian mining companies founded the Canadian investment syndicate, Cordex, to finance him down in the U.S. Shortly after, he and Galli, who had been head of exploration for Union Carbide in the Sixties, found the Pinson deposit, but it wasn't developed until 1980 when gold prices started to take off. They managed to repay the $17 million bank loan needed to open the mine in less than 14 months. The Pinson mine and another mine they discov-

The talk of Round Mountain

George Steinmetz

Round Mountain (pop. 900)
Moving a town as well as a mountain.

Production workers at mines like Hycroft Resources' Crofoot and Lewis in northwest Nevada are now getting nearly $1,200 for working ten days on and four days off. But the crew at Donna's Diner in Battle Mountain, an old mining town, has seen prior mineral booms come and go. In the 1970s Battle Mountain proclaimed itself the Barite Capital of the World, when that mineral was in great demand. But the oil recession of the 1980s and competition from Chinese barite killed that boom. A copper boomlet ended in the late 1970s, when prices collapsed.

"There's no confidence in mining," says independent miner Tom Norris, 66. "J.C. Penney or Wal-Mart aren't going to move into this area. I don't blame them."

At the moment the local economies of Battle Mountain (pop. 4,000) and Round Mountain (900) are beginning to bubble. Battle Mountain supports eight gas stations, five restaurants, four motels, three grocery stores and two "guest ranches," as the town's brothels are called. Miners earn as much as $14 an hour, plus overtime. The mining companies are running up against labor shortages. Last year Battle Mountain Gold Co. gave every hourly worker 50 shares of stock—recently worth 13¼—if they stuck with the company through to year's end.

Despite the rising production, however, there are no major population inflows to the area. The reason: Nevada gold mining is capital- not labor-intensive.

The population of Round Mountain, at the base of Echo Bay's,Homestake Mining's and Case,Pomeroy's Round Mountain mine, hasn't changed much over the years. But the town's location is about to. With the mine starting to encroach on the town, Echo Bay has encouraged Round Mountain's residents to move 5 miles to a new town named Hadley, after mining executive Hadley Case *(see story)*. There the citizens will have a nine-hole golf course and a pool.

Having watched booms ebb and flow, the miners take such change in stride. David Naccarati's great-grandfather emigrated from Italy to mine, and he and his family have been mining ever since. Naccarati himself has moved often, growing up in Arizona and traveling to South America to ride the copper boom. Now he is manager of Echo Bay's McCoy mine. "Since the early 1970s, because of the swings in commodity prices, you've got to move to stay in work," says Naccarati philosophically, over breakfast at Donna's. "For the people who have been in the mining business, it's just ups and downs. It's life."—**H.R. and J.C.**

George Steinmetz

Ore on its way to be crushed
A far cry from Nevada's pick and shovel days.

ered in Carlin have since thrown off $65 million in profits to the partners. Livermore and Galli together have a 20% interest.

Among Nevada's gold fortunes, no one tops publicity-shy geologist Hadley Case, 78. He and his family control a privately owned investment company, Case, Pomeroy & Co., Inc., of New York City, which has a 25% interest in the largest gold heap-leaching mine in North America, Nevada's Round Mountain.

Round Mountain's open-pit mine had been owned by Case, Pomeroy, Felmont Oil—an oil and mining company Case had headed for several decades—and the Copper Range Co. In 1984 Felmont Oil, of which Case, Pomeroy held almost 50%, was sold to Homestake Mining for about $350 million in stock. That gave Case, Pomeroy 11% of Homestake's stock.

Then oil and gas prices collapsed. In early 1985 Echo Bay Mines came into the picture. Copper Range's parent, an oil company, wanted out of mining. Case, a director at Echo Bay's parent and a former Copper Range director, knew Echo executives Robert Calman and John Zigarlick. The connection seemed right. So Echo Bay went ahead and acquired Copper Range.

Echo Bay, which paid $55 million for its 50% stake in Round Mountain, quickly proved that the gold heap-leaching process could be economically used to extract gold from the lower ore as well as the more accessible upper ore. Round Mountain's proven and probable gold reserves are now almost 7 million ounces. Case, Pomeroy's one-quarter share is now estimated to be worth a minimum of $250 million. In addition, Case, Pomeroy's shareholdings in Homestake Mining today are worth some $113 million.

But what would a gold rush be without hype? Wasn't it Mark Twain who defined a gold mine as a hole in the ground owned by a liar?

Lying, surely, is too strong. But aggressive promotion isn't.

Canada's smallish Cornucopia Resources has close to 100,000 acres of land in the area known as the Ivanhoe property. It boasts about the value of its deep-drilling acreage because other companies, like American Barrick, did some deep drilling nearby. American Barrick, however, insists it still has lots of deep drilling to do to see just how much is there, and continues that it will be at least three years

Don't cry "Eureka" yet

Below, 11 publicly traded U.S. and Canadian companies with gold plays in Nevada. As gold prices and production rose in 1986 and 1987, shares in some gold companies doubled or even tripled in value, only to fall 30% to 50% in last month's market crash. But don't rush out to buy them. If gold prices continue their recent slide, share prices could easily fall further. If you're thinking of playing the Nevada gold rush, look for those companies with rising gold output, low operating costs and strong balance sheets.

Company	Total reserves* (mil/oz)	Operating cash flow ($thou)	Cash ($thou)	Long-term debt (1987 E) ($thou)	Cash cost per ounce*	Range since 1/1/86 high	low	recent
Amax Gold (NYSE)	2.40	$38,800	$20,620†	$0	$80	32	14	18⅛
American Barrick (NYSE)	5.76	30,666[1]	250,000	198,000	232	30⅜	3 3/16	16
Battle Mountain (NYSE)	2.60	57,100	50,000	0	126	29⅞	7¼	13¼
Echo Bay Mines (Amex)	6.80	76,564	36,641	70,735	201	30⅛	6 5/16	17
FMC Gold (NYSE)	1.98	68,637[1]	5,000	42,500	137	17½	9	10¼
Freeport-McMoRan Gold (NYSE)	2.28	40,930[1]	57,586	0	165	23⅞	6¼	11
Galactic Resources (o-t-c)	1.00	7,622[1]	12,686	24,436	—‡	13¼	4⅛	6
Granges Exploration (Amex)	1.08	NM	20,158	27,180	—‡	14¼	4⅜	5¼
Homestake Mining (NYSE)	10.20	107,300	161,500	35,000	276	48⅛	20⅛	27
Newmont Gold (NYSE)	5.60	93,892	62,811	0	195	48¼	8⅝	29⅝
Pegasus Gold (o-t-c)	3.42	30,000	52,000	50,000	239	26⅛	5⅛	13⅜

*Includes companies' entire gold operation. †Includes intercompany receivables. ‡Mines in start-up phase.
[1]Nine-month figure annualized. NM: Not meaningful.

before it realizes any gold production from deep drilling.

Earlier this year the Texas State Securities Board cracked down on San Antonio-based Havilah Mining & Exploration. It was selling investors $89,500 stakes in land of dubious value. The company claimed it had four gold properties, but investigators could find only one, in Nevada. And "certified assays" for that mine had been prepared by the seller of the property lease. Ten months ago Havilah was forced by the authorities to offer refunds to all its Texas investors. State securities fraud investigators say the San Antonio operation is only the first of many gold scam crackdowns to come.

In any case, producing gold takes time and experience. Ask Robert Friedland, the flamboyant founder of Vancouver-based Galactic Resources, which has rights to a 50% working interest in Cornucopia Resources' Ivanhoe property. Last year Friedland hastily put his Summitville gold mine into production, ran into all sorts of problems, and took a $21 million writedown. This year, Summitville will produce 75,000 ounces.

This past summer Friedland teamed up with T. Boone Pickens in Pickens' attempt to take over giant Newmont Mining. The raid appears to have fizzled. Newmont wound up paying a special dividend of $33 per share. For Galactic that meant a $21 million dividend. However, it is looking at a paper loss of over $20 million on the Newmont shares it still holds. And Galactic's market value, which had run up sharply over the past year, to over $400 million, has since been slashed, to $180 million.

Another colorful character with a Nevada presence is legendary Canadian promoter Murray Pezim, known in mining circles as the Pez. During the past two decades the Pez left lots of mining investors stranded in money-losing Vancouver exchange mining stocks. But he struck it rich with the Hemlo gold mine, in Ontario.

Through Golden Nevada, another Vancouver company he controls, the Pez is now touting the 65,000 acres of land the Maggie Creek Ranch holds as "the second-biggest property" in the rich Carlin belt trend. Unlike other Carlin properties, however, no economically worthwhile gold has been found on the Maggie.

"We're not just logging paper," insists the Pez. "We really are looking for gold mines."

The late bull stock market deserves some of the credit for Nevada's surging production. Since 1985 about $1 billion in equity capital has been raised from investors by the mining companies, with much of those funds channeled to the capital-intensive Nevada operations. Several companies had sold stock at 40 and more times earnings. The market crash will, however, make raising equity capital more difficult. Already one gold company, Battle Mountain Gold, has postponed a 5¼ million share stock offering intended to raise some $130 million.

"I think you're going to see a quite different environment for gold companies next year," predicts Jeffrey Nichols, a New York gold bull at American Precious Metals Advisers. "You're going to see recapitalizations and mergers. Bigger, stronger-capitalized companies with rising cash flows are going to acquire companies that don't have significantly growing gold production and will therefore lack access to equity markets."

Even if gold drops, say, to below $400 an ounce, says Nichols, "some gold companies could still increase cash flow. They would be the ones who have cash operating costs below $200 an ounce and have enough cash on hand to pay down a good portion of their debt." Some candidates could include Newmont Gold, Echo Bay, American Barrick and Amax Gold.

If politicians, in their haste to head off a recession, set the stage for a new round of inflation, owners of gold stocks may end up very happy people. ■

George Steinmetz

The night shift at Round Mountain
Case, Pomeroy's quarter share is probably worth over $250 million.

Lightning, but no thunder

Lightning surely struck Wall Street, but the thunder has yet to be heard farther uptown in Manhattan's galleries and auction houses. Top-quality works continue to fetch prices that looked heady even before Black Monday. On Oct. 22, just three days later, a first edition of volume one (Genesis to Psalms) of the Gutenberg Bible was auctioned at Christie's. It had been expected to fetch $1.5 million to $2 million. When the bidding was over, Japanese bookseller Maruzen Co., Ltd. bought it for $5.39 million. The collective sigh of relief from art dealers was almost palpable

"You would think nothing had happened downtown," said Ben Heller, an art dealer and investor, after attending another auction at Christie's two weeks later. Contemporary art was the chief interest that night. "Good, strong bidding at all levels," said Christie's president, Christopher Burge. Well, not quite all. Lesser works by Hofmann, de Kooning, Pollock, Stella, Motherwell, Rothko and others failed to make their reserves.

Gutenberg illumination

It may be that just as second-tier stocks got hurt even more than blue chips in the recent crash, art works of less than top quality appear most vulnerable. For now, at least, the watchword is quality.

Does the art market's strength bode well for the economy? Not necessarily. Parking assets in art in uncertain times is a notion centuries old.

Sotheby's art market trends

Index sectors	Oct 1987	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two year % change	Five years % change	Five years average annual % change
Old Master paintings	349	349	303	289	199	nil	+15.2	+20.8	+75.4	+11.9
19th-century European paintings	323	303	250	249	183	+6.6	+29.2	+29.7	+76.5	+12.0
Impressionist & Post-impressionist art	661	661	432	371	255	nil	+53.0	+78.2	+159.2	+21.0
Modern paintings (1900-1950)	666	666	429	342	245	nil	+55.2	+94.7	+171.8	+22.1
Contemporary art (1945 onward)	597	597	542	488	333	nil	+10.1	+22.3	+79.3	+12.4
American paintings (1800-pre-WWII)	789	789	687	635	459	nil	+14.8	+24.3	+71.9	+11.4
Continental ceramics	320	320	290	284	266	nil	+10.3	+12.7	+20.3	+ 3.8
Chinese ceramics	550	550	486	486	460	nil	+13.2	+13.2	+19.6	+ 3.6
English silver	349	349	338	298	183	nil	+ 3.3	+17.1	+90.7	+13.8
Continental silver	201	201	192	178	134	nil	+ 4.7	+12.9	+50.0	+ 8.4
American furniture	459	452	380	324	213	+ 1.5	+20.8	+41.7	+115.5	+16.6
French & Continental furniture	319	319	285	273	234	nil	+11.9	+16.8	+36.3	+ 6.4
English furniture	594	594	447	382	263	nil	+32.9	+55.5	+125.9	+17.7
Aggregate index*	477	475	369	336	251	+0.4	+29.3	+42.0	+90.0	+13.7

Basis: 1975 = 100 ($).

©Sotheby's 1987

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Monthly highlights

The most important auctions of the fall season, contemporary art and impressionist paintings, are still ahead, but the sales results to date at auction houses in London and New York have been in line with pre-stock-market-crash expectations. In fact, auctions in jewelry and silver have set records.

In New York, within three days following Black Monday, a 64.83-carat diamond realized $6.38 million (a world auction record) and a 54.99-carat stone, the Porter Rhodes diamond, achieved $3.85 million. As noted in the story above, a first edition of volume one (Genesis to Psalms) of the Gutenberg Bible sold for $5.39 million. In 1978 a complete version of this Bible sold for $2.2 million.

Index highlights

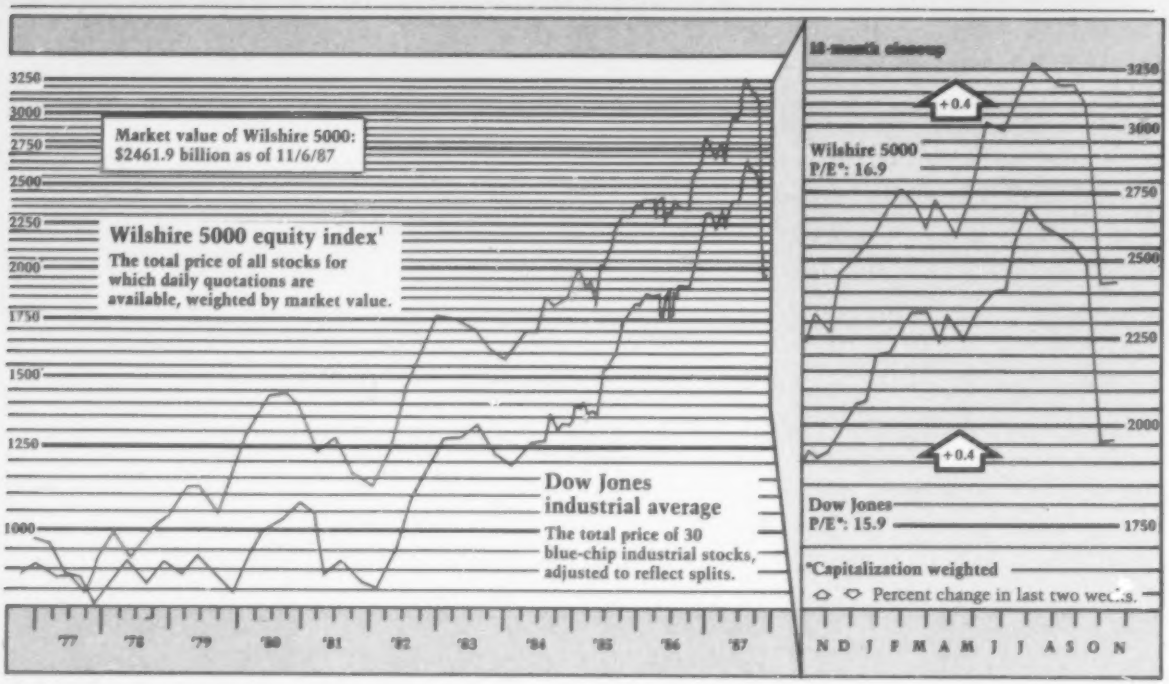
Within Sotheby's art index, the main centers of activity have been 19th-century European and Old Master paintings, American furniture, English and Continental silver and Continental porcelain.

The 19th-century European paintings auctions were the first major fine arts sales to take place in New York after stock prices fell. Despite the volatile economic climate, salesrooms were packed, and competition was spirited.

Europeans and Japanese were major participants, but Americans, both private collectors and institutions, were active, too. A favored 19th-century area, Barbizon School works by such artists as Courbet and Millet, fared well.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market value of Wilshire 5000: $2461.9 billion as of 11/6/87
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
3250
3000
2750
2500
2250
2000
1750
1500
1250
1000
'77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87
18-month closeup
+0.4
Wilshire 5000 P/E*: 16.9
+0.4
Dow Jones P/E*: 15.9
*Capitalization weighted
Percent change in last two weeks
N D J F M A M J J A S O N

Taking the measure of volatility. The new jagged look to the Wilshire index has scared some investors away. Volatility per se is disturbing. Will the market simmer down?

The market itself provides a clue. Here's how. The value of an index option is determined by several factors, including exercise price, expiration date, volatility of the underlying index—and the spot price of that index. At any given point, all of these factors are known except for the volatility. Thus, one can work backwards to determine the volatility "implied" by an option price.

On Nov. 6, for example, a call option to buy the S&P 500 at 250 until Mar. 18 was quoted at 28½. On the same day, the index itself closed at 250. Crank these numbers into a computer and you get an implied volatility of 39% per year, says Harrison Roth of Drexel Burnham. That figure is up sharply from the 22% implied volatility prevailing in September. In short, traders still expect the market to be extremely volatile.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–20.8	–20.5	–21.1	–19.8	–26.4	–25.6
in last 52 weeks	–2.2	0.1	3.8	–1.0	–4.7	–9.6

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–19.9	–23.2	–26.6	–12.9	–27.5	–20.4	–12.0	–26.1	–26.3	–16.4	–20.0	–23.6
in last 52 weeks	–1.5	11.2	16.2	3.9	–8.4	–8.2	–6.0	19.7	16.6	–3.5	–2.0	5.3

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

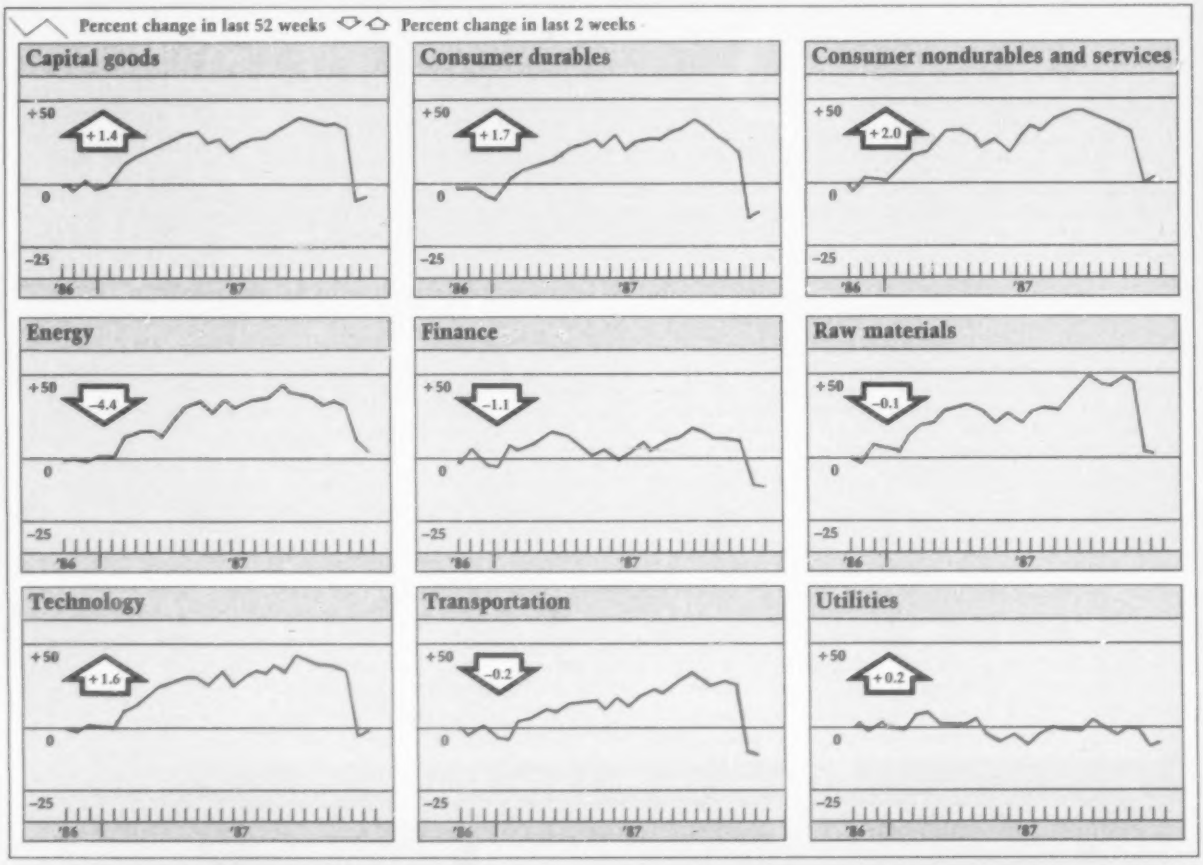
Note: All data for periods ending 11/6/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Gus Pernch

Where the Action Is

When the dust settled. With the exception of a 4.4% decline in the energy sector, all groups finished the two-week period with either small gains or small losses. Behind the group figures, however, were some sharp swings in individual stocks because of takeover plays. Southland, which is being pursued by Thompson Co., a private investment concern, rose almost 33%. A takeover offer for Singer Corp. from Paul Bilzerian pushed this defense electronics stock up 27%. E.F. Hutton gained 38% in the finance sector.

Fears that gold stocks had become overpriced drove down share prices in the raw materials group. Echo Bay Mines fell 17%; Placer Dome, 18%; Homestake Mining, 24%; and Battle Mountain Gold, 27%. *(See table, p. 164.)*



What the Analysts Think

Second thoughts. With only one quarter left, securities analysts are not making significant changes in their 1987 forecasts, despite Wall Street's fall. What about 1988? Up until September, analysts were dropping one 1988 estimate for every one they lifted. Now, they are dropping three estimates for every two that they are lifting.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.31	16.1
1987 estimates	2.84	13.1
1988 estimates	3.73	10.0

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Consumer durables	$4.54	10.4	0.57%	0.76%
2	Energy	2.47	14.5	0.25	-0.14
3	Utilities	2.37	10.1	-0.01	-0.11
4	Capital goods	2.08	16.4	-0.04	0.62
5	Raw materials	2.38	13.2	-0.08	0.84
6	Consumer nondurables	2.32	14.1	-0.25	-0.57
7	Technology	2.50	13.2	-0.42	-0.65
8	Transportation	2.17	13.6	-0.48	-1.89
9	Finance	1.67	16.1	-1.67	-3.82

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 11/6/87. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.